

European Outlook on the Illicit Trade in Tobacco Products

Executive Summary



Transcrime – Joint Research Centre on Transnational Crime
Università Cattolica del Sacro Cuore di Milano – Università degli Studi di Trento
Milan office (headquarters): Largo Gemelli, 1 – 20123 Milano (Italy)
Phone: +39 02 7234 3715 / 3716; Fax: +39 02 7234 3721

www.transcrime.it

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This study has been coordinated by Ernesto U. Savona and drafted by: Monica Angelini, Alberto Aziani, Sara Banfi, Francesco Calderoni, Stefano Caneppele, Marco De Simoni, Fiammetta Di Stefano, Marco Dugato, Serena Favarin, Lorella Garofalo, Marina Mancuso, Serena Oliva, Martina Rotondi, Pamela Scarati, Elisa Superchi.

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Graphic project: Ilaria Mastro – Transcrime

As a concerned stakeholder in the fight against the illicit trade in tobacco products, Philip Morris International (PMI) welcomed Transcrime’s initiative to develop the European Outlook on the ITTP. PMI partially funded the study and

provided data. Transcrime retained full control and stands guarantor for the independence of the research and its results. Any information and data collected by Transcrime have not been shared with PMI.

KEY MESSAGES

The illicit cigarette market is changing rapidly in size, products, flows, actors and *modi operandi*. Policies underestimate the dynamic nature of the illicit market.

1.

The proceeds of the illicit cigarette market range between €7.8 and €10.5 billion. Between 2006 and 2013 the illicit market changed remarkably, shrinking in some areas and booming in others.

The types of illicit cigarettes are rapidly evolving: illicit whites have steadily grown in number while other illicit cigarettes (those involved in bootlegging, small/large scale contraband) are falling. Counterfeits are stable.

2.

3.

The illicit cigarettes consumed in the EU often originate from non-EU countries. European institutions should carefully consider the asymmetries among markets that generate criminal opportunities for the illicit trade.

Between 100,000 and 150,000 people may be involved in the EU illicit cigarette market at different levels. Large scale flows account for the largest share of the illicit cigarette market. Large scale operations are run by senior, more experienced criminals.

4.

Law enforcement deters the illicit trade to only a small extent. In 2013, the individuals reported to national authorities accounted for only 7% of those involved in the EU illicit cigarette trade; seizures concerned 6.7% of the illicit cigarette market in 2013.

5.

Policymakers and law enforcement agencies should introduce innovative measures aimed at reducing criminal opportunities.

EXECUTIVE SUMMARY

This study calls for a new direction to be taken in the analysis of, and the fight against, the illicit trade in tobacco products (ITTP) in the European Union (EU). It suggests increased focus on the reduction of criminal opportunities than on crime control policies. This requires a change of mindset: from the conviction of criminals, hoping that this will eventually reduce crime, to the actual reduction of crime through specific prevention strategies.

The study adopts two approaches. The first part (Framing the scene: the ITTP in the European Union) takes a “horizontal approach” and analyses selected components of the illicit cigarette market in the EU. The second part (Zooming the scene: the ITTP in the EU Member States and beyond) adopts “a vertical approach” and examines in detail the illicit

markets within each EU Member State, as well as the role of selected non-EU European countries in the EU illicit market. Both the horizontal and the vertical approaches underscore the regulatory and law enforcement dimensions that influence the size and type of the ITTP in Europe and beyond.

If the illicit cigarette trade is to be reduced, it is necessary to understand the trade-off between regulation of the legal market and the risk of creating criminal opportunities in the illicit market. Currently, policymakers regulate the legal market while leaving the fight against the illicit market to law enforcement. The reduction of criminal opportunities may reduce this trade-off, thus maximizing health and minimizing crime with lower costs.

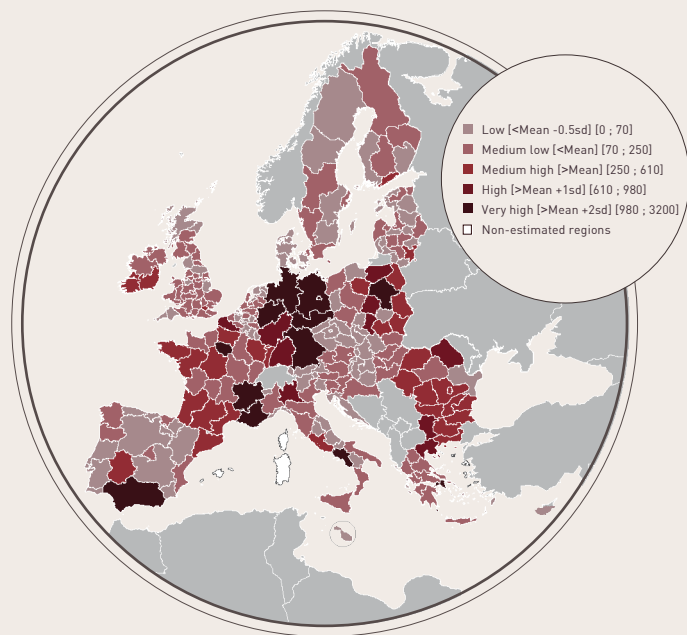
01. THE SIZE OF THE ILLICIT CIGARETTE MARKET

Estimation of the illicit cigarette market in 247 subnational areas of the EU for the period 2006-2013 extends beyond existing estimates at the national level. It identifies concentrations of the volumes, the prevalence (illicit cigarettes per 100,000 inhabitants) and the proceeds of the illicit market, enabling more detailed analysis of the ITTP at the local level.

VOLUMES *of* ILLICIT CIGARETTES MILLION STICKS (2013)

Map 1. Source: Transcrime estimates

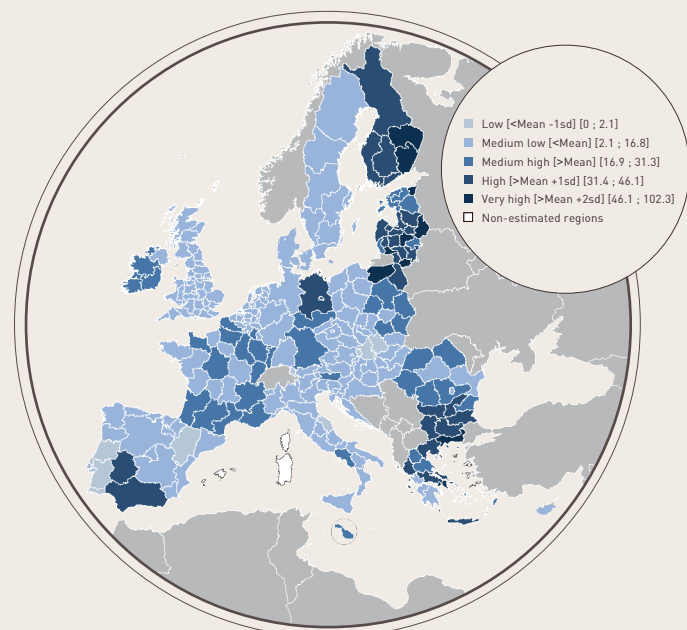
The illicit cigarette trade is concentrated in specific areas. In 2013, the volumes of illicit cigarettes exceeded 1 billion in thirteen areas (six in Germany, three in France, one each in Spain, Greece, Poland, and Italy). These areas accounted for nearly 35% of the EU illicit market, estimated at around 59 billion cigarettes in 2013.



PREVALENCE *of* ILLICIT CIGARETTES MILLION STICKS PER 100,000 INHABITANTS (2013)

Map 2. Source: Transcrime estimates

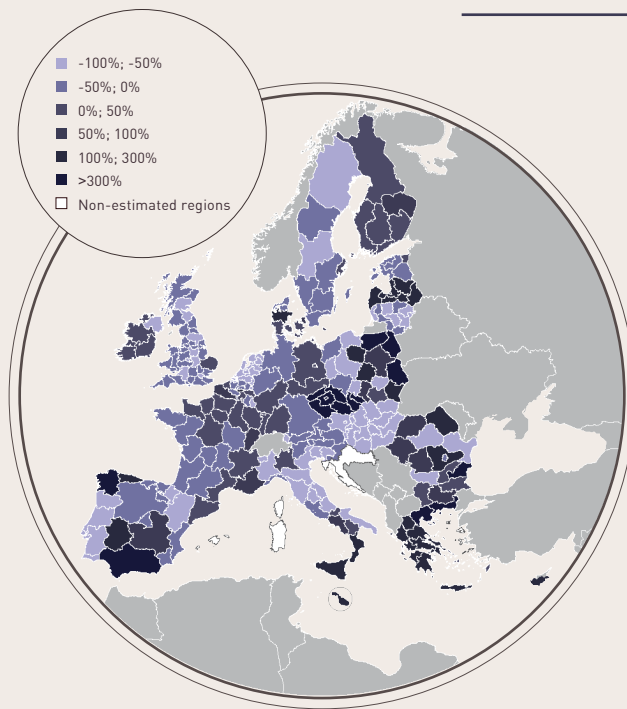
In 2013, seven areas reported a prevalence higher than 50 million illicit cigarettes (equal to 500 cigarettes yearly, or 10 cigarettes weekly per inhabitant, including non-smokers). Two areas were located in Greece and Lithuania, and one each in Estonia, Latvia, and Poland.



PERCENTAGE CHANGE

IN THE PREVALENCE *of* ILLICIT CIGARETTES

MILLION STICKS PER 100,000
INHABITANTS (2006-2013)¹



Map 3. Source: Transcrime estimates

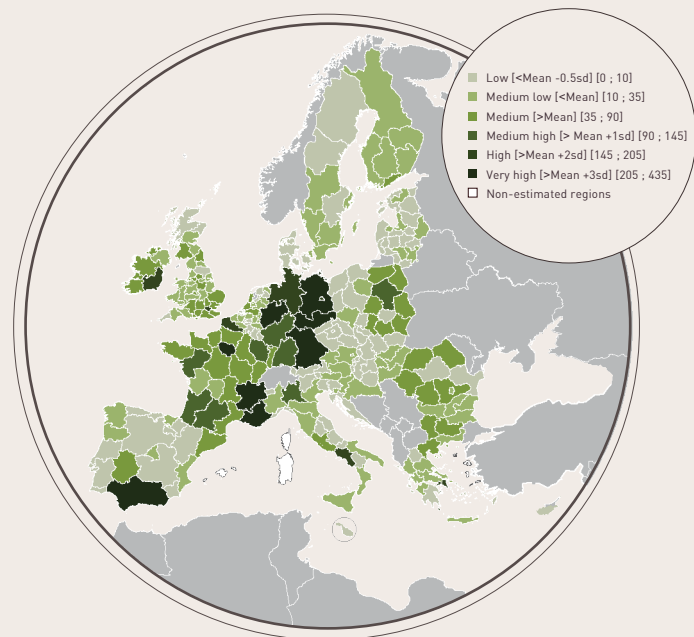
Between 2006 and 2013, the illicit cigarette market constantly evolved in terms of time and space. Fewer than half of the areas reported a modest variation in the illicit trade (between -50% and +50%). In 64 areas, illicit cigarettes increased by more than 50%, with impressively high growth (>300%) in 16 areas located in Bulgaria, the Czech Republic, Greece, Poland, and Spain. At the same time, however, the illicit market decreased by more than 50% in 63 areas.

PROCEEDS *of* THE ILLICIT CIGARETTE MARKET

MIDPOINT ESTIMATES,
MILLION EUROS (2013)

Map 4. Source: Transcrime estimates

The illicit cigarette market yields proceeds amounting to between €7.8 billion and €10.5 billion yearly. In the EU, the revenues generated by the ITTP are comparable to those of the cocaine or heroin markets.



Analysis of the estimates of the illicit cigarette market and other socioeconomic conditions of the areas provides some indications for future research: the levels of illicit cigarettes are associated with wealth, price of legal cigarettes, and crime levels in

the areas concerned. Other important factors, such as the attitude of the population to the purchase of illicit goods or the likelihood of being sanctioned or arrested, could not be tested owing to the lack of reliable and comparable data.

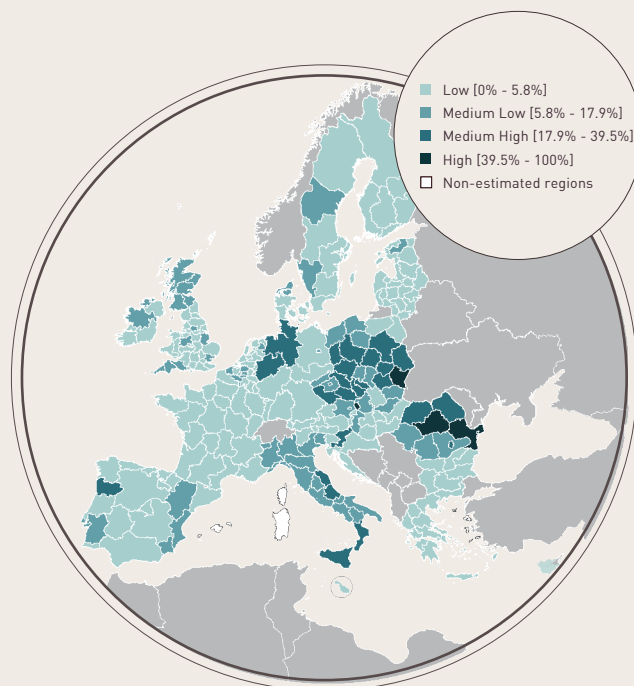
02. THE PRODUCTS

The distinction among counterfeit, illicit whites and other illicit cigarettes shows the different dynamics of the illicit cigarette markets in space (247 EU areas) and time (from 2006 to 2013). It contributes to the specificity of crime and enables more effective removal of criminal opportunities.

SHARE *of* COUNTERFEIT CIGARETTES IN THE ILLICIT CIGARETTE MARKETS (2013)

Map 5. Source: Transcrime estimates

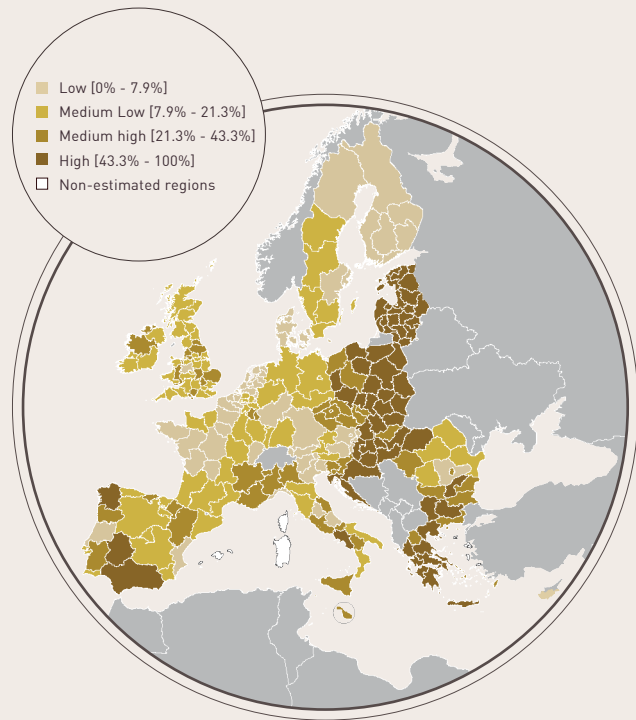
In 2013, counterfeits had an average share of the illicit market of 7.1%, with an irregular trend since 2006.² They reached high levels in a few areas, accounting for more than one-third of the illicit market in seven areas. The fluctuation of counterfeits may be due to a double supply channel: large-scale from outside the EU (China is indicated as the main source, even if there is a growing role of United Arab Emirates, Ukraine, Belarus, and Russia) and intra-EU production in smaller illicit factories.



SHARE *of* ILLICIT WHITES CIGARETTES IN THE ILLICIT CIGARETTE MARKETS (2013)

Map 6. Source: Transcrime estimates

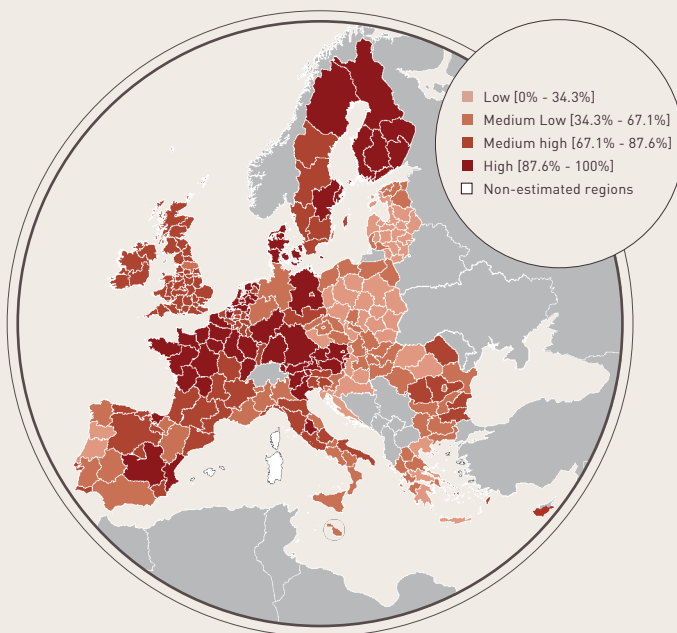
Illicit whites had an average share of the illicit market of 27.9% in 2013, with a constantly growing trend since 2006.³ They were present in most areas, but they concentrated at the EU borders. In addition to the overall growth in the period across the EU, some areas recorded high concentrations of illicit whites for a few years, followed by a stabilization of the share at medium-high levels.



SHARE *of* OTHER ILLICIT CIGARETTES IN THE ILLICIT CIGARETTE MARKETS (2013)

Map 7. Source: Transcrime estimates

In 2013, other illicit cigarettes accounted for an average of 64.6% of the illicit market.⁴ They exceeded 50% in 172 areas; their share was below 20% in only 19 areas. Yet, from 2006 to 2013, the share of other illicit cigarettes steadily decreased. This decline was due to better enforcement and prevention strategies adopted by both law enforcement and the tobacco industry, as well as to the growth of illicit whites.



03. THE FLOWS

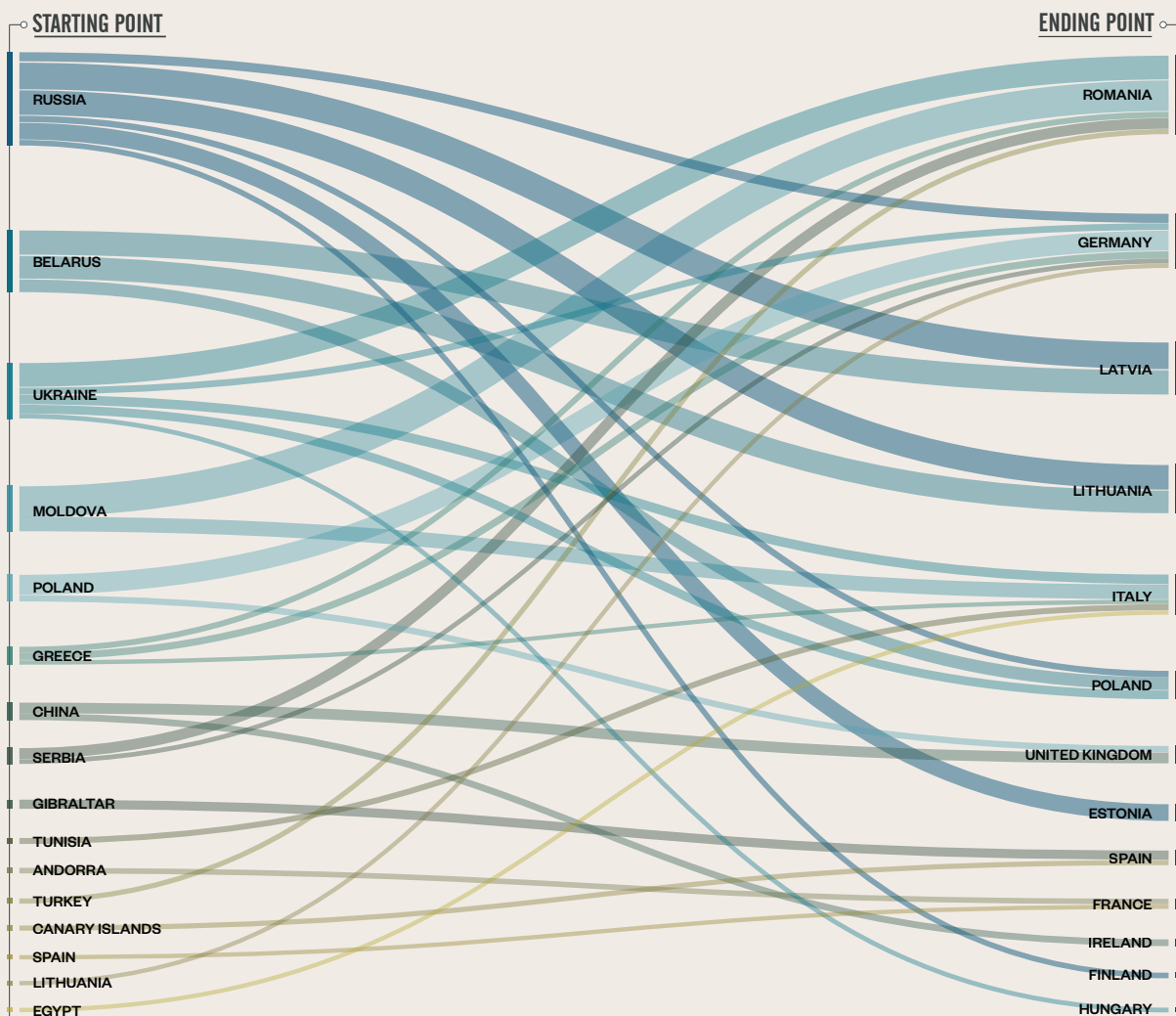
The analysis of flows replaces traditional distinctions among source, transit and destination countries. Depending on different conditions, countries may simultaneously be the starting, transit and/or ending points of the ITTP. Understanding of these dynamics is a requisite for the removal of criminal opportunities.

Flows express the direction and intensity of the movement of illicit tobacco products, from one country (starting point) to another (ending point) with the indication of the transit point if available.⁵

MAIN ITTP FLOWS BY FREQUENCY

(2010–2013)*

Figure 1. Source: Transcrime elaboration (details in the Annex)

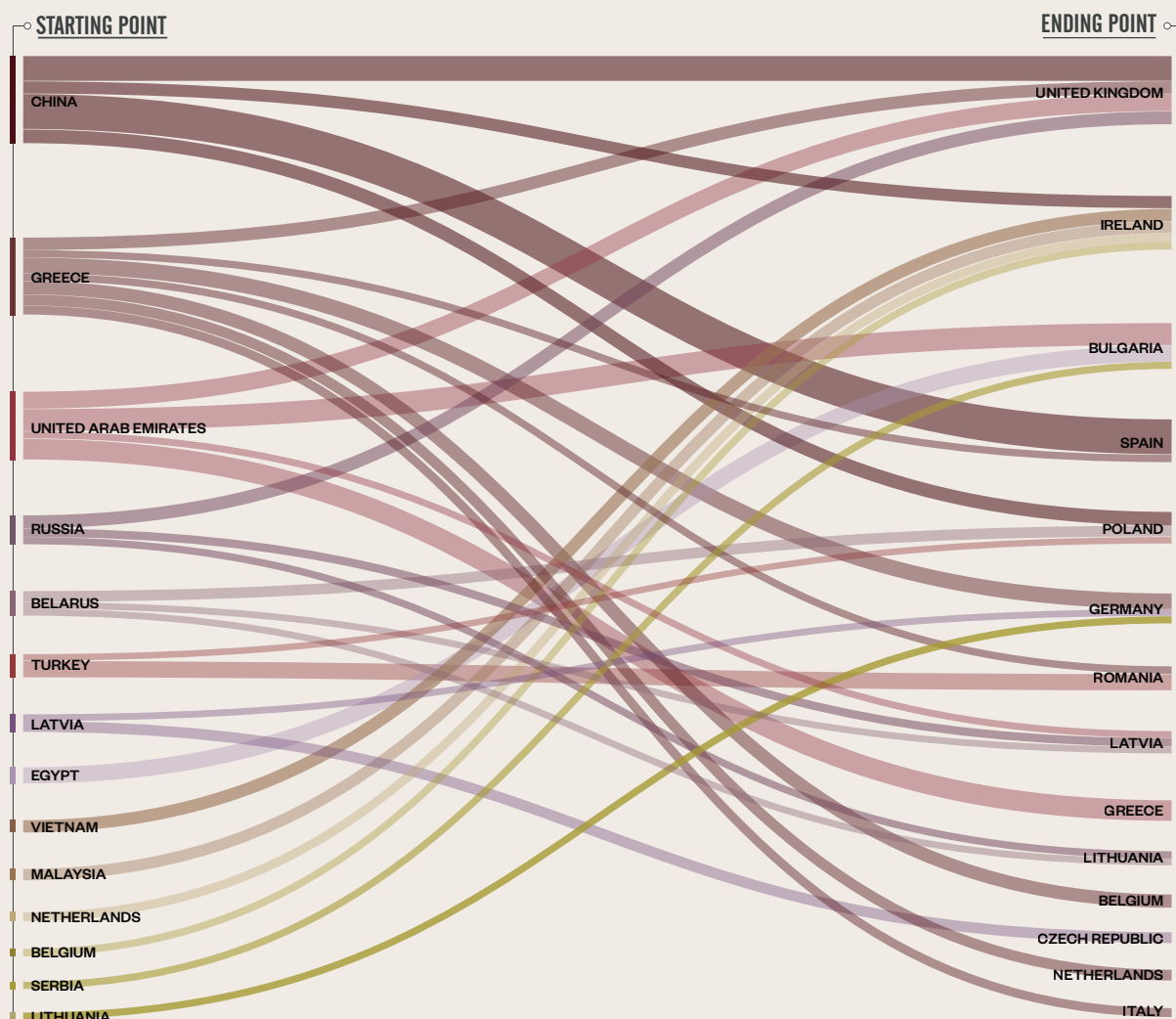


* The thickness of each line indicates the number of cases reported

MAIN ITTP FLOWS BY QUANTITY SEIZED

MILLION STICKS (2010–2013)*

Figure 2. Source: Transcrime elaboration (details in the Annex)



* The thickness of each line indicates the quantity of cigarettes seized

The most frequent ITTP flows are characterised by geographic proximity between the starting and ending points. Geographic proximity favours bootlegging and it explains the high number of flows between non-EU and EU bordering countries. Many frequent flows are also characterised by the high cigarette price differential between the starting and ending points. Other frequent flows originate from countries where illicit whites and

counterfeit cigarettes are manufactured (Figure 1).

The ITTP flows with the largest seized quantities show greater geographic distance between starting and ending points. These flows originate mainly from Far and Middle Eastern countries and reach the EU destination countries with the largest ports (Figure 2).

According to the ITTP Starting Point Index, the top ten starting points are either the main producers of counterfeit cigarettes and illicit whites, or countries where cigarette prices are very low, so that it is profitable to smuggle tobacco products to countries with higher prices (Table 1).

THE ITTP STARTING POINT INDEX

Top 10 starting points for illegal tobacco products within the EU borders (2010–2013)

Table 1. Source: Transcrime elaboration (details in the Annex)

Starting Point	Index
Russia	100
China	86
United Arab Emirates	74
Belarus	69
Ukraine	56
Moldova	42
Latvia	31
Turkey	30
Poland	28
Egypt	27
Serbia	27

According to the ITTP Transit Point Index, the top ten transit points either have the major European ports or are strategically located between Eastern and Western Europe (Table 2).

THE ITTP TRANSIT POINT INDEX

Top 10 transit points for illegal tobacco products within the EU borders (2010–2013)

Table 2. Source: Transcrime elaboration (details in the Annex)

Transit Point	Index
Greece	100
Italy	63
Poland	49
Romania	41
Germany	40
Lithuania	36
Latvia	27
France	24
Netherlands	24
Slovenia	20

According to the ITTP Ending Point Index, the top ten ending points registered an ITTP penetration above the EU average in 2013 (11.0%) (Table 3).

THE ITTP ENDING POINT INDEX

Top 10 ending points for illegal tobacco products within the EU borders (2010–2013)

Table 3. Source: Transcrime elaboration (details in the Annex)

Ending Point	Index
United Kingdom	100
Italy	76
Germany	74
Romania	70
Ireland	63
Latvia	62
Poland	52
Spain	47
Bulgaria	44
France	39

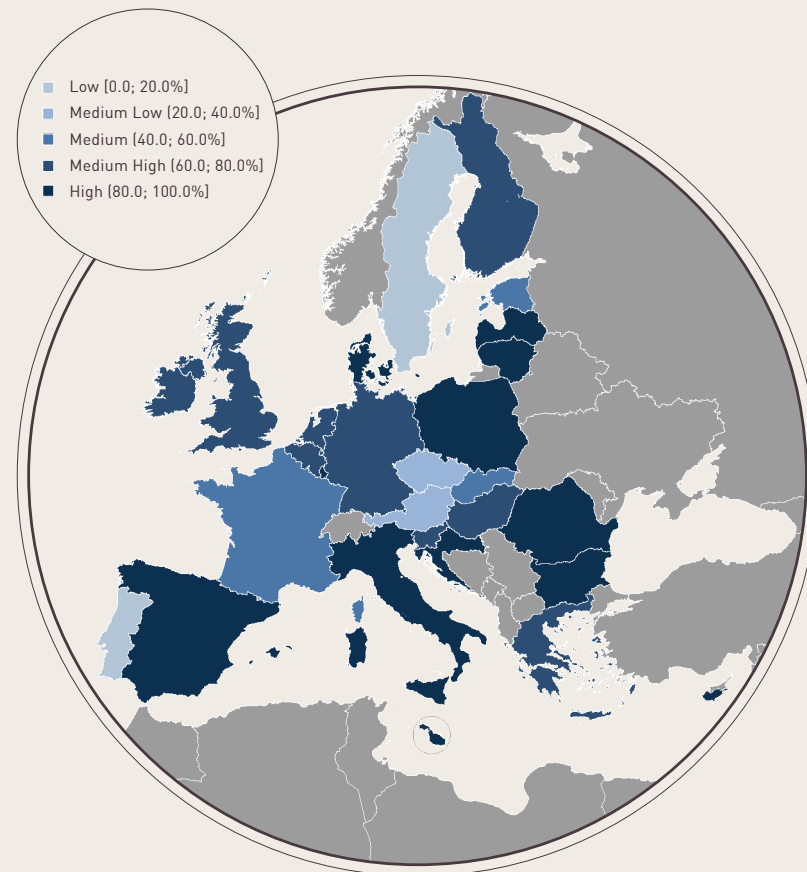
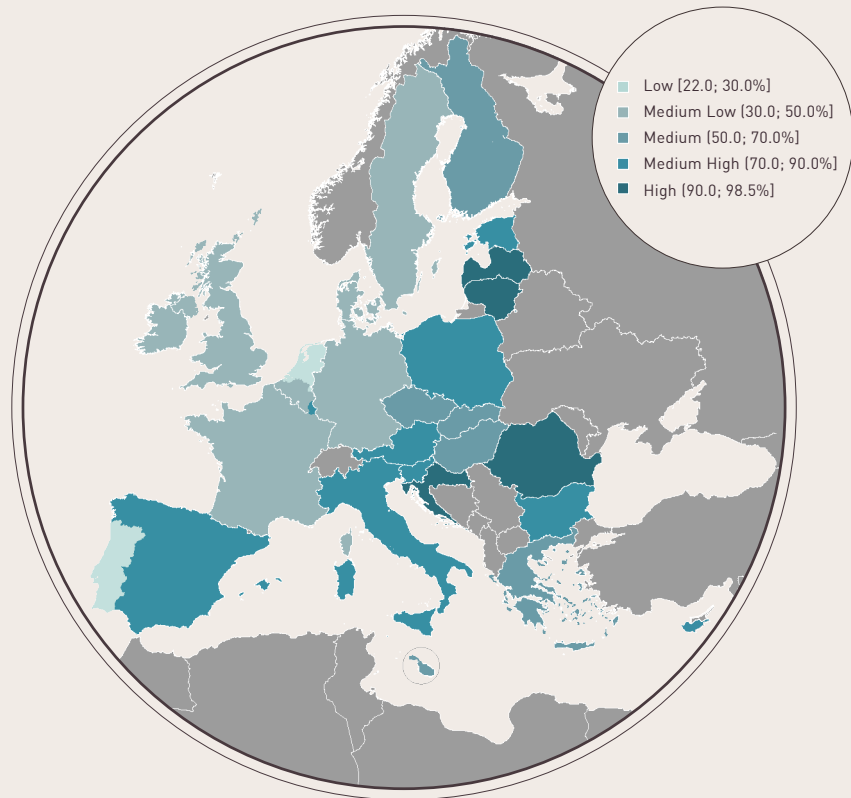
THE ROLE OF NON-EU COUNTRIES

Non-EU countries are key suppliers of illicit tobacco products to the EU markets. They accounted for 69.7% of the flows and 79.5% of the seized quantities between 2010 and 2013. EU Member States along the Eastern EU border or those with major ports and problematic free trade zones reported the highest shares for both number of flows and quantity seized (Map 8; Map 9).

SHARE OF ITTP FLOWS ORIGINATING FROM NON-EU COUNTRIES BY FREQUENCY (2010–2013)

ORIGINATING FROM NON-EU COUNTRIES BY FREQUENCY (2010–2013)

Map 8. Source: Transcrime elaboration
(details in the Annex)



SHARE OF ITTP FLOWS ORIGINATING FROM NON-EU COUNTRIES BY QUANTITY SEIZED (2010–2013)

ORIGINATING FROM NON-EU COUNTRIES BY QUANTITY SEIZED (2010–2013)

Map 9. Source: Transcrime elaboration
(details in the Annex)

04. ACTORS AND MODUS OPERANDI

The ITTP comprises large-, medium- and small-scale actors. They have specific characteristics and they adopt different *modi operandi*. Collecting information on the ITTP actors and their *modi operandi* is crucial for tackling criminal opportunities.

The exploratory estimate of people involved in the ITTP was approximately 100,000-150,000 in 2013. This large figure makes it clear that the fight against the ITTP should be carried out by focusing on both the reduction of opportunities and crime control policies.

The types of ITTP actors are:

- Large-scale actors. They engage in the distribution of large consignments of illicit tobacco smuggled over long distances. This type of actors is usually part of transnational

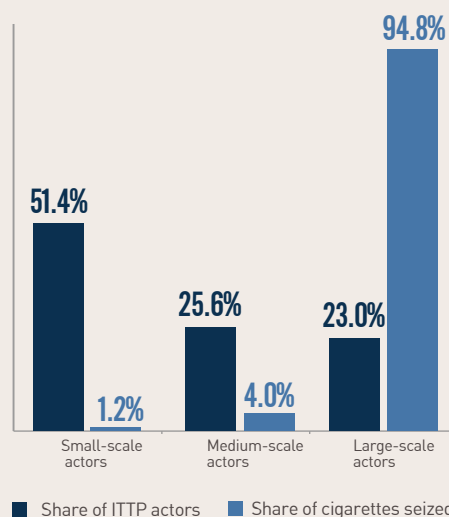
criminal networks with a high level of organization.

- Medium-scale actors. They engage in the distribution of medium-sized consignments of illicit tobacco over medium-short distances. Medium-scale actors can be single individuals or small groups.
- Small-scale actors. They engage in the distribution of small consignments of illicit tobacco over medium-short distances (bootlegging or “ant smuggling”). They usually act alone or in small groups with a low degree of organisation.

SHARE OF ITTP ACTORS (N=7,398) AND SHARE OF SEIZED CIGARETTES (N=6.8 BILLION STICKS) PER TYPOLOGY OF ITTP ACTORS (2010-2013)

Figure 3. Source: Transcrime elaboration (details in the Annex)

Large-scale actors account for the largest ITTP share. Whilst representing only 23% of the reported actors, they account for 94.8% of seized cigarettes. Small and medium-scale actors comprise the majority of actors but only a small fraction of seized cigarettes (51.4% and 25.6% of the actors and 1.2% and 4.0% of the cigarettes, respectively).



GEOGRAPHIC ORIGIN OF ITTP ACTORS PER TYPOLOGY % (N=4,225) (2010–2013)

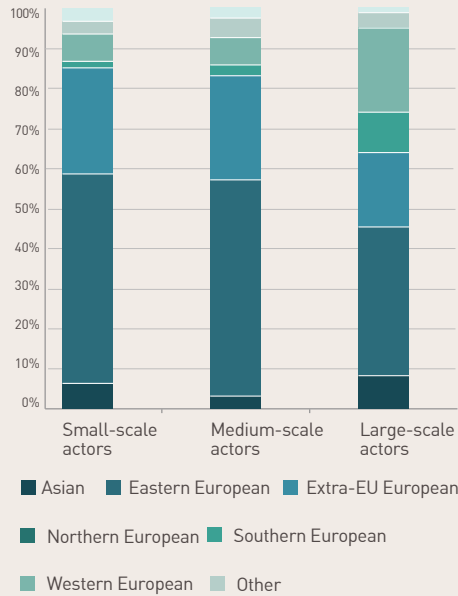


Figure 4. Source: Transcrime elaboration (details in the Annex)

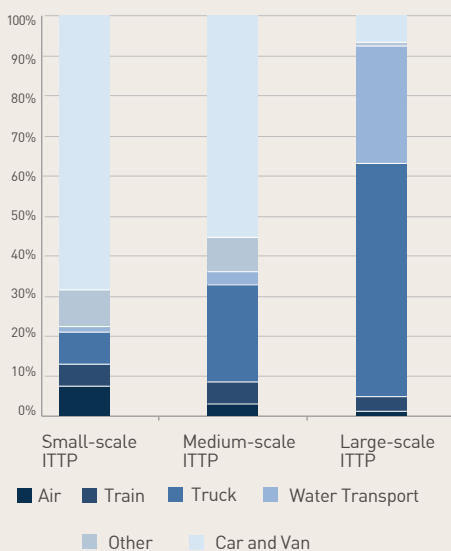
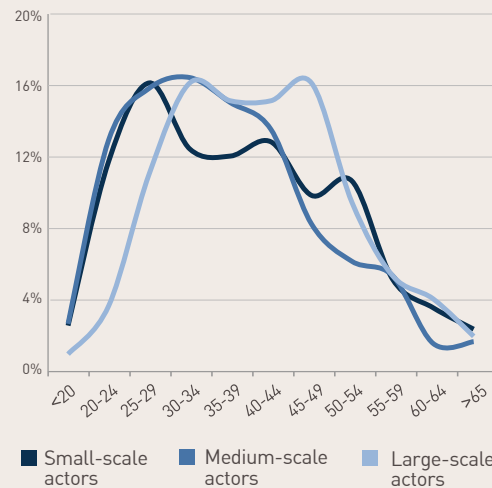
Small-scale and medium-scale actors are mainly Eastern Europeans and non-EU Europeans. The majority of Eastern Europeans are from Romania, Lithuania, and Poland, countries which record the highest ITTP prevalence. Those actors from non-EU European countries are mainly from Ukraine, Moldova, and Belarus, where illicit whites are produced.

Southern Europeans (mainly from Greece, Italy and Spain) are the second-largest group of large-scale actors after Eastern Europeans. This is because of the presence of large commercial ports in Southern Europe which receive large shipments of illicit cigarettes.

AGE OF ITTP ACTORS PER TYPOLOGY % (N=1,994) (2010–2013)

Figure 5. Source: Transcrime elaboration (details in the Annex)

Large-scale actors are older than small-scale and medium-scale actors. More precisely, 40.9% of them are aged between 40 and 54, compared with the majority of ITTP actors, who are in the 30-39 age group (27.5%). These findings show that large-scale ITTP is conducted by senior, more experienced criminals. In their criminal careers, they may increase the size and complexity of their operations.



MEANS OF TRANSPORT PER ITTP TYPOLOGY % (N=3,970) (2010–2013)

Figure 6. Source: Transcrime elaboration (details in the Annex)

The means of transport vary according to whether ITTP operations are small-scale, medium-scale, or large-scale. In particular, 'cars and vans' are the preferred mode of transport in small-scale ITTP (68.8%) and medium-scale ITTP (56.1%). In large-scale ITTP, trucks are most frequently used (59.0%), followed by water transport (28.8%), and 'cars and vans' (6.8%). As the size of loads increases, the use of 'cars and vans' decreases, whereas the share of trucks and water transport (boats, ships and containers) increases.

05. THE EU AND NATIONAL ANTI-ITTP POLICIES

Despite a number of measures at the EU and international level, the EU Member States still significantly differ in their implementation of anti-ITTP policies. To be effective, a new wave of control policies should prioritize the opportunities reduction approach, which focuses on the reduction of crime through specific prevention strategies.

The cigarette market is a typical dual market consisting of a legal and an illegal part linked to each other. The structure of the illicit market also depends on the regulation of the legal part and on law enforcement actions. For this reason, this study has considered policies affecting the illicit market at both European and country level.

EU POLICIES

Starting in 2004, the EU signed legally binding agreements with the four major tobacco manufacturers. Measures included the requirement to supply cigarettes in amounts commensurate with the legitimate demand, implementing supply chain controls including a tracking and tracing systems, and adopting “know-your-customer” programs. In 2004, 2007 and 2014, the EU activated the anti-fraud Hercule programs in order to provide financial support to European countries. Programme Hercule II for the first time provided a legal basis for financing activities aimed at combating fraud and illicit cigarette trade.

In 2010 Europol promoted EMPACT projects (European Multidisciplinary Platform against Criminal Threats) against serious international and organised crime. Projects related to the ITTP are: smuggling in shipping containers (2011-2013), excise and missing trader intra-community fraud (2014-2017).

In 2011, the EU adopted an action plan to fight the smuggling of cigarettes and alcohol along the EU’s eastern borders.

In 2013, the EU presented a European strategy on the fight against cigarette smuggling and other forms of ITTP. In the same year, the EU signed the Protocol to Eliminate Illicit Trade in Tobacco Products, the aim of which is to eliminate all forms of illicit trade in tobacco products through the implementation of global supply chain controls including tracking and tracing and due diligence. As of October 2014, the

Protocol has only four Parties of the forty required for its entry into force. In 2014, the revised Tobacco Products Directive (2014/40/EU) entered into force. It introduced tracking and tracing standards and security features to support law enforcement in detecting diverted products.

NATIONAL POLICIES

National anti-ITTP policies comprise: preventive policies, awareness campaigns, and data collection on and estimates of the ITTP. Preventive policies include memoranda of understanding (MOUs) and/or legal agreements between tobacco manufacturers and national public bodies, a national action plan against the ITTP, and a legal duty to destroy confiscated tobacco products and equipment (Map 10).

The most implemented anti-ITTP policies are memoranda of understanding, provisions on legal duty to destroy confiscated tobacco products, and the public availability of data on illicit tobacco seizures.

The least implemented anti-ITTP policies are the availability of data on convictions for the ITTP and of public estimates on the size of the ITTP.

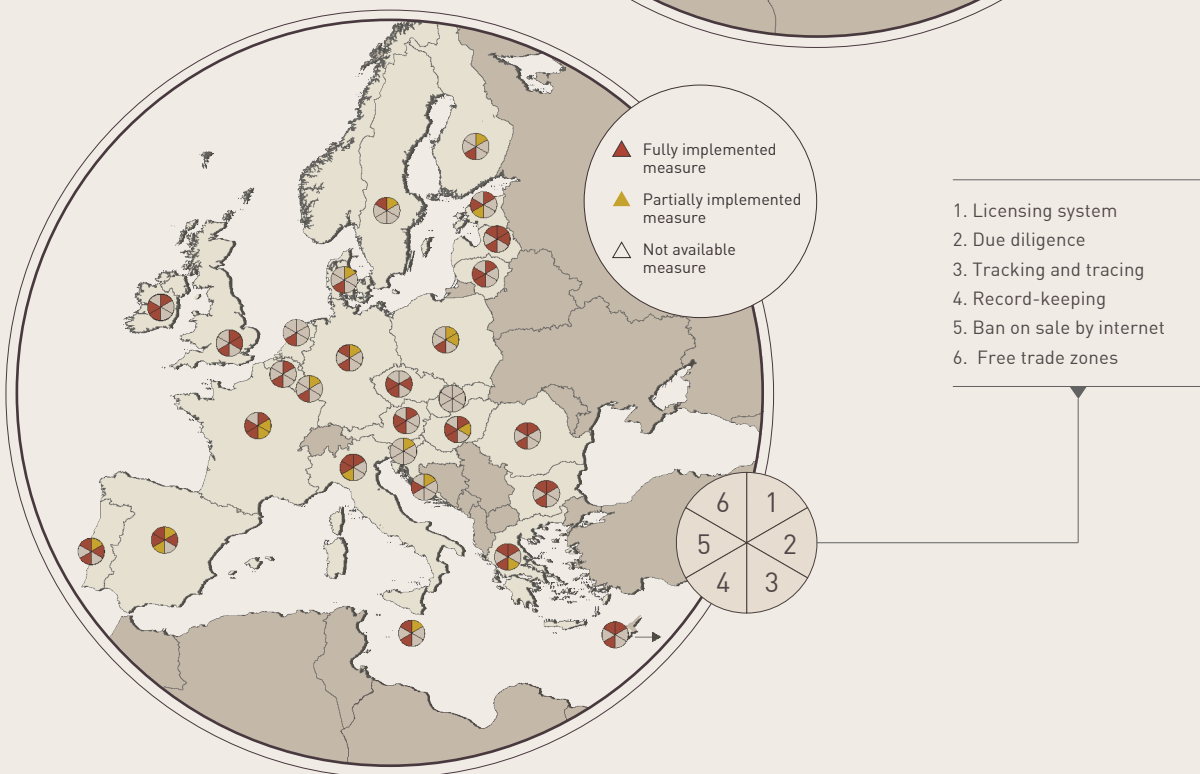
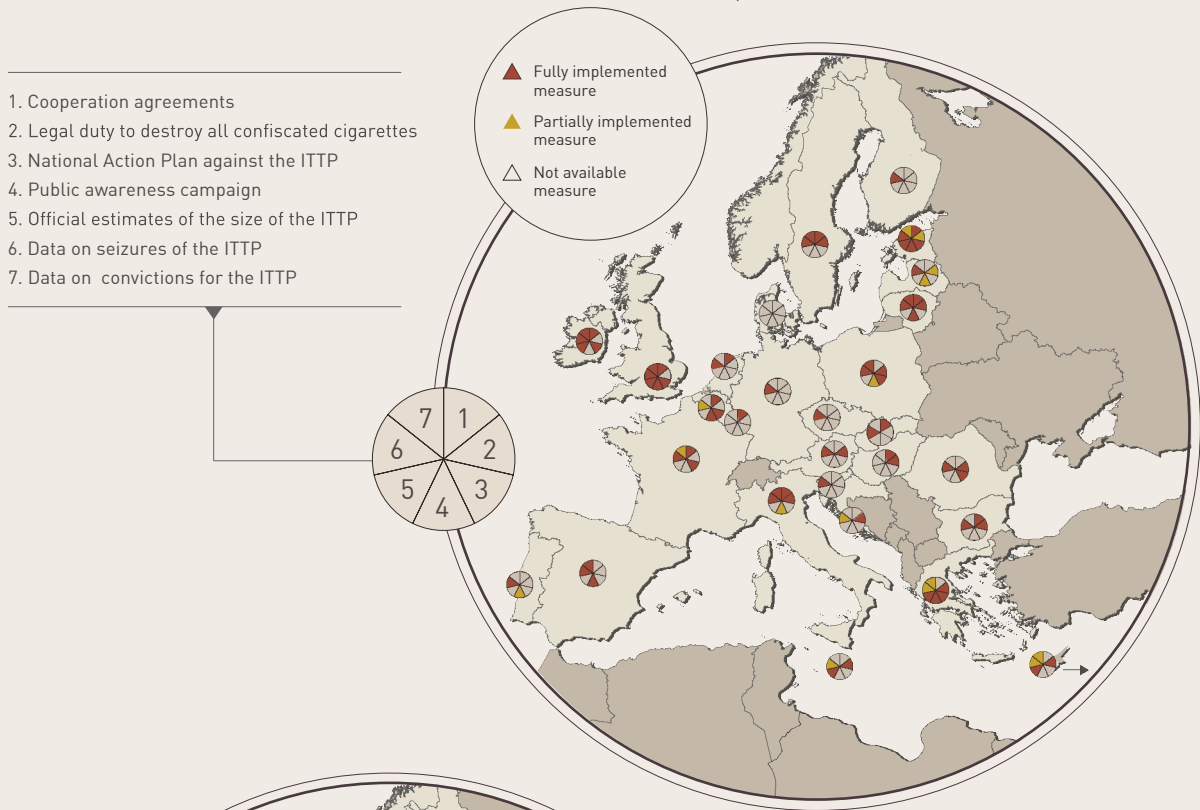
Securing supply chain control measures aim at preventing abuses on the legal side of the tobacco market. The measures considered are: licencing system, due diligence, tracking and tracing system, record-keeping, regulation of internet sales and of free trade zones (Map 11).

The most implemented measures to secure the supply chain are licensing system and record-keeping.

The least implemented measures are national tracking and tracing systems. However, the agreements among the EU, the Member States, and the four major tobacco manufacturers already include tracking and tracing. Nevertheless, the current systems are incomplete and may be reviewed to be consistent with the provisions of the Protocol to Eliminate Illicit Trade in Tobacco Products (art. 7).

ANTI-ITTP POLICIES

Map 10. Source: Transcrime elaboration (details in the Annex)



SUPPLY CHAIN CONTROL MEASURES

Map 11. Source: Transcrime elaboration (details in the Annex)

06. LAW ENFORCEMENT AGAINST THE ITTP

Regardless of their intense efforts, law enforcement agencies report approximately 7.0% of the actors and seize 6.7% of the total of illicit cigarettes. This is unlikely to deter criminals, and counsels the implementation of complementary policies relying on the reduction of criminal opportunities.

THE INTERNATIONAL AND EU JOINT EFFORT AGAINST THE ITTP

International and EU law enforcement agencies, such as Eurojust, Europol, Frontex, OLAF, Interpol and World Customs Organisation coordinate and support anti-ITTP actions.⁶ Moreover, they collaborate with national agencies to tackle illicit tobacco within national borders.

THE NATIONAL EFFORT AGAINST THE ITTP

The activities of national law enforcement agencies against the ITTP include the arrest of ITTP actors, the seizure of illicit tobacco products, and the dismantlement of illicit manufacturing facilities.⁷

Estimates, based on open sources and official data, of the number of individuals reported to law enforcement agencies for ITTP offences in the EU Member States ranged between 7,000 and 10,500 individuals in 2013. These accounted for 7.0% of the estimated number of individuals involved in the ITTP in the same year (100,000-150,000). Given the difference in the estimates, the risk of arrest is unlikely to deter criminals.

More information is available on seizures. However, seizure data should not be considered as reliably representing the size and composition of the ITTP in an area. In fact, law enforcement

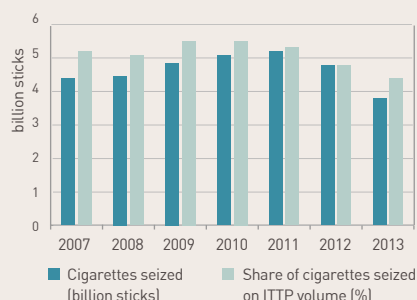
agencies often seize cigarettes destined for different countries and areas. Other factors like resources, efficiency, corruption and legislation influence seizure data.

Between 2007 and 2013 cigarette seizures in the EU decreased by 14.5% (from 4.5 to 3.8 billion sticks). Despite their efforts, EU national authorities seized only 6.7% of the estimated illicit cigarette market in 2013 (Figure 7). Because of the low priority of the ITTP and the budget constraints of most EU Member States, law enforcement action may not be able to disrupt the illicit cigarette market entirely. Criminals are likely to consider seizures as mere costs for their business rather than as effective deterrents.

Analysis of European macro-regions between 2007 and 2013 shows that the majority of cigarette seizures occurred in Northern Europe (average of 40.1% of the total EU seizures). This high value is related to the presence of the UK, one of the main destinations for illicit cigarettes because of its high cigarette prices. Moreover, the UK has invested significant resources in the fight against the ITTP. It is also an island, so that its borders are easier to control. The second largest macro-region for cigarettes seized was Eastern Europe (average of 23.2% between 2007 and 2013) due to its proximity to the main source countries of illicit cigarettes (Belarus, Ukraine, and Russia) (Figure 8).

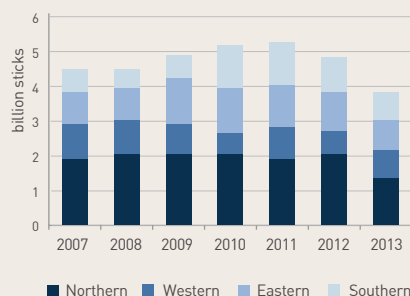
CIGARETTES SEIZED IN THE EU (BILLION STICKS) AND SHARE OF SEIZURES OUT OF THE TOTAL ITTP VOLUME (2007-2013)⁸

Figure 7. Source: Transcrime elaboration (details in the Annex)



CIGARETTES SEIZED PER MACRO-REGIONS IN EUROPE, BILLION STICKS (2007-2013)⁹

Figure 8. Source: Transcrime elaboration (details in the Annex)

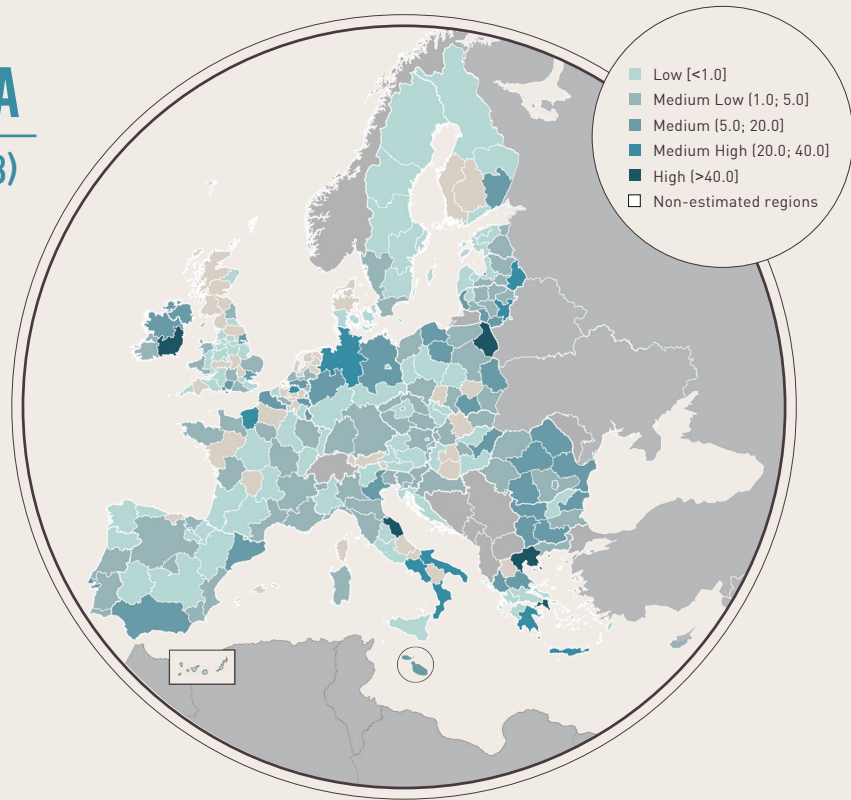


AVERAGE QUANTITY OF CIGARETTES SEIZED PER AREA

MILLION STICKS (2010–2013)

Map 12. Source: Transcrime elaboration (details in the Annex)

The five areas with the highest number of cigarettes seized between 2010 and 2013 were: Attica (Greece), Podlaskie Province (Poland), Central Macedonia (Greece), Marche (Italy) and Leinster (Ireland). All these areas have important ports, with the exception of Podlaskie Province, which is located close to Belarus, where illicit whites are produced.

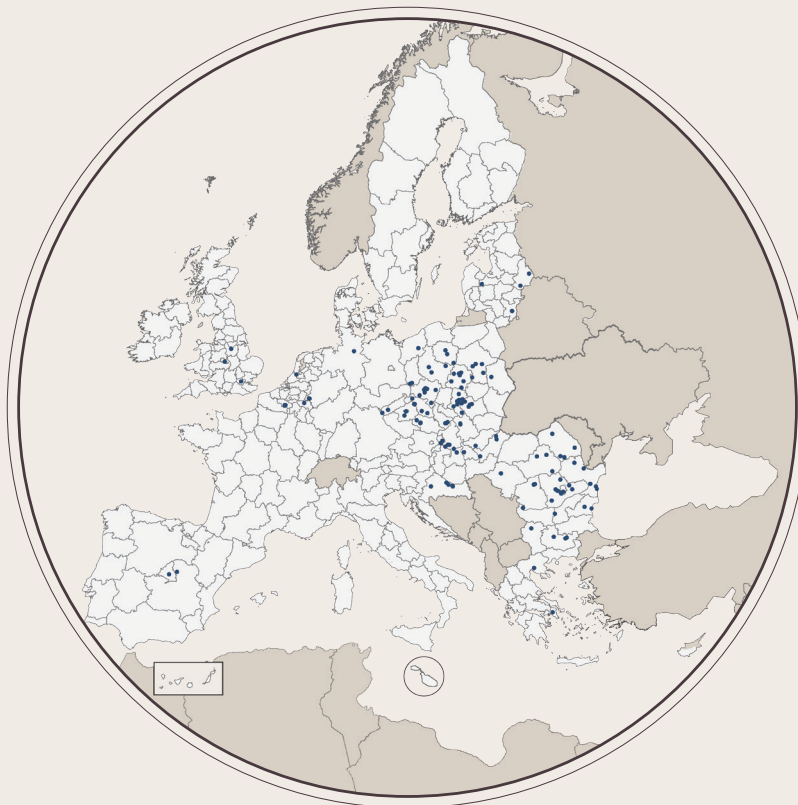


ILLICIT MANUFACTURING FACILITIES

RAIDED IN THE EU PER AREA (2010–2013)

Map 13. Source: Transcrime elaboration (details in the Annex)

Between 2010 and 2013, 150 manufacturing facilities were dismantled in the EU. The three areas with the highest concentration of these facilities were located in Poland: Lower Silesia (6.7%), Łódź Province (6.0%) and Silesia Province (6.0%). Other important hubs were Nord-Est and Sud (Romania), Continental Croatia (Croatia), and Mazovia Province (Poland), which together accounted for 18.7% of raided facilities.



07. FUTURE CHALLENGES ON THE POLICY AND RESEARCH AGENDA

The analyses conducted in this study enable identification of the challenges, concerning both policy and research, for the effective reduction of criminal opportunities.

This study adopts an innovative approach which focuses on the reduction of criminal opportunities. In order to develop this approach, adequate policies and further research should be promoted.

FUTURE CHALLENGES ON THE POLICY AGENDA

IMPROVING THE EFFECTIVENESS OF SUPPLY CHAIN CONTROLS

Supply chain controls like tracking and tracing systems have contributed to the decrease of large-scale ITTP in the last decade. Today, several agreements require the establishment of an EU/global tracking and tracing system. Approximately 95% of the EU legal cigarette market is subject to tracking and tracing by the four main manufacturers. Yet, in the ever-changing illicit cigarette market, current tracking and tracing systems may be insufficient because they do not adequately address issues such as counterfeiting, illicit whites, and illegal manufacturing.

To ensure the effectiveness of tracking and tracing against the new forms of the ITTP, the implementation of these systems should respond to criteria of effectiveness and efficiency. This entails:

- global application without asymmetries among countries and systems, avoiding loopholes that could be exploited by criminals;
- reliance on open standards that could facilitate the interoperability among different systems at a lower cost.

INCREASING CONTROLS ON KEY INPUTS

Controlling key inputs may significantly improve the prevention of the ITTP by effectively tackling illicit manufacturing both outside and inside the EU.¹⁰ Acetate tow may be an ideal input to control because it is mainly used to produce cigarette filters. Moreover, the acetate industry is concentrated and vertically integrated. Also cigarette manufacturing equipment would benefit from control, since the machinery can be used to produce illicit products.

TACKLING OTHER ILLICIT TOBACCO PRODUCTS

Developing controls beyond cigarettes is also necessary because the evolution of the tobacco market (rising prices driven by tax increases) has induced consumers to downtrade from cigarettes to other tobacco products (particularly hand rolling tobacco). The downtrading to cheaper tobacco products may create new criminal opportunities for the ITTP (e.g., illicit hand rolling tobacco and unprocessed tobacco). While most available data and prevention strategies apply to cigarettes, information on and countermeasures against other illicit tobacco products are limited.

FUTURE CHALLENGES ON THE RESEARCH AGENDA

IMPROVING THE DATA ON THE ILLICIT CIGARETTE MARKET

This study relies on a variety of existing and available sources. Interpretation of its results should not underestimate the

possible biases and limitations affecting the data used. There is wide political consensus that the quality of data on the ITTP should be improved so as to develop more focused analyses and tailor more effective remedies. This could be done by developing strategies to collect better data. This study can help in this direction as well. The estimates of the illicit cigarette market rely on three main sources of data: the national volumes of the illicit market, smoking prevalence, and empty-pack surveys. These sources could be improved as follows:

- National volumes of the illicit market. Their collection should be improved by assessing the reliability of the primary data and providing details about the estimates produced.

- Smoking prevalence data. This study is the first existing analysis of the ITTP at NUTS-2 or NUTS-3 levels.¹¹ The data used could, of course, be criticized, but this level of analysis is promising because it is closer to the real structure of the illicit markets. The more that EU Member States produce yearly measurements at the NUTS-2/-3 levels, the better the understanding of the markets will be, and the more effective actions by policymakers and law enforcement agencies will become.

- Empty-pack surveys (EPSs). Industry-sponsored EPSs have many advantages including the sample size, periodic collection, and country-level sampling. To enhance the potential of this instrument, the same methodology should be used in the conduct of such surveys in different countries so as to improve data comparability.

The estimates of the ITTP at the subnational level may enable analysis of the similarities and differences among areas in different countries. Specific studies on the social, cultural and economic characteristics of the areas and their impact on the ITTP could follow this study.

INCREASING KNOWLEDGE ON LAW ENFORCEMENT ACTIVITIES

Law enforcement data are important for understanding not only the workload of the law enforcement agencies, but also the functioning of the illicit tobacco market. Knowledge about the ITTP's dynamics could be enhanced if law enforcement agencies provided the following information on an annual basis:

- data on illicit tobacco seizures disaggregated by type of products seized, brand, and product origin and destination;

- data on convictions for the ITTP, which should include data on convicted persons (age, gender, and nationality) and on the penalties imposed;

- estimates of the size of the ITTP by type of product (e.g. counterfeit, contraband, illicit whites).

Open data may become an even more powerful tool with which to understand the ITTP. Their quality could improve if law enforcement agencies regularly reported through press releases the main operations against the ITTP and made available a minimum set of information about the operations conducted.

INCREASING KNOWLEDGE ON THE *MODI OPERANDI* OF TOBACCO SMUGGLERS

Existing knowledge on the *modus operandi* of cigarette smugglers is still under-researched. Future studies should provide better insight through the application of innovative methodologies of analysis, such as the crime-script method. The latter has shown promising applications in providing detailed analysis of specific illegal behaviours.¹²

08. COUNTRY PROFILES

Country profiles provide in-depth information on the illicit cigarette market in each EU Member State.

This part of the study is devoted to the analysis of each Member State of the EU. For each country, a targeted profile estimates the size of the ITTP market and the different types of illicit tobacco products at the subnational level. It provides insights on the ITTP actors and flows, as well as law enforcement and regulatory actions against the ITTP. Each country profile also provides recommendations to improve the action against illicit cigarettes. In providing information at a country level, this study

aims at developing a discussion within and across countries merging this section with the information provided at the EU level.

The cover for each country profile is the image of a bridge. This symbolically represents the cooperation that should link countries in fighting the ITTP. Indeed, throughout its entire analysis, this study stresses the importance of cooperative policies and joint actions among different EU and non-EU countries.

09. OUTSIDE THE BORDERS BUT INSIDE THE MARKET

A number of non-EU countries are part of the problem of the illicit cigarette market in the EU. Understanding the dynamics of these countries enables the identification of reduction opportunities strategies also outside the EU.

Adopting the reduction of opportunities approach means focusing on those countries that are outside the EU borders but inside the tobacco market (Belarus, Russia, Ukraine, Serbia, and Turkey).

Belarus, Russia and Ukraine are key starting points for illicit tobacco products. They are central because of the low cigarette prices,

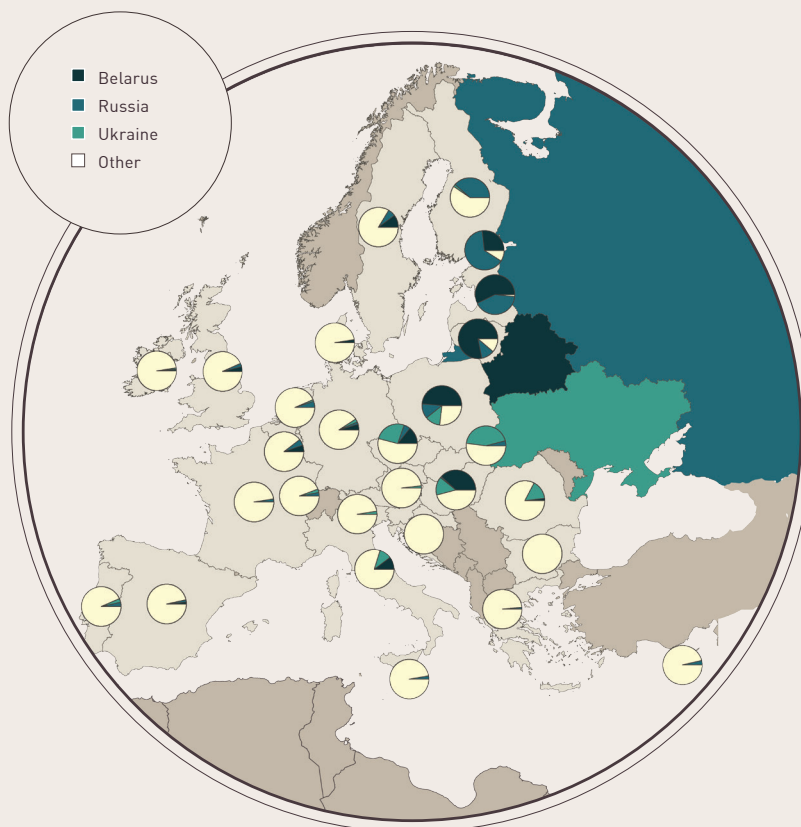
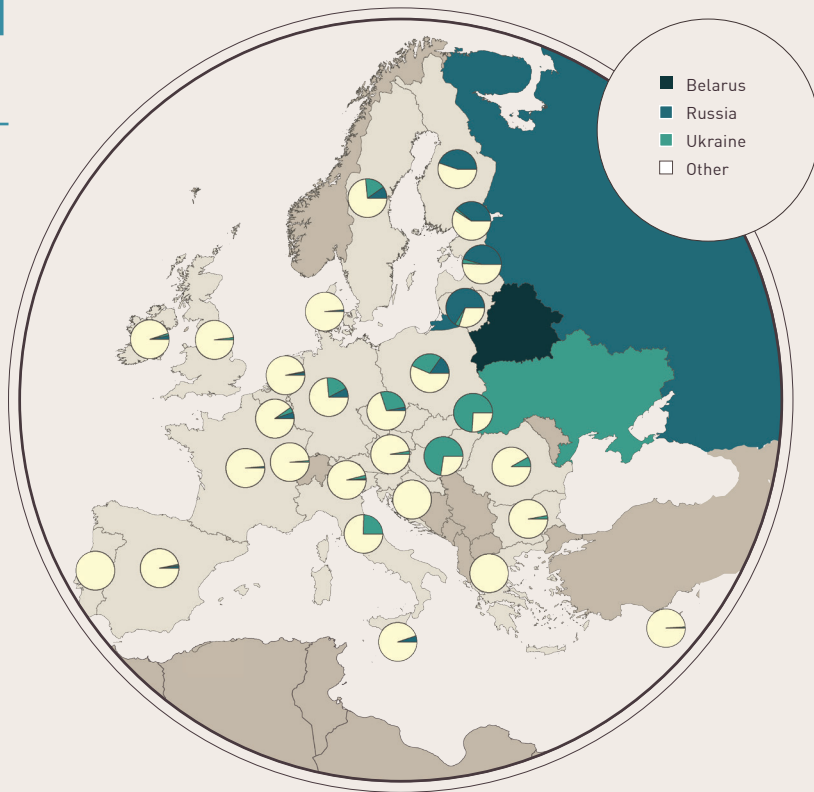
the presence of illicit whites manufacturers and illicit tobacco factories, and the existence of consolidated criminal networks.

The share of illicit Belarussian and Russian cigarettes imported into the EU has grown since 2006, whereas the Ukrainian share has generally decreased (Map 14; Map 15).

SHARE OF ILLICIT CIGARETTES

COMING FROM BELARUS, RUSSIA, UKRAINE AND OTHER COUNTRIES ON THE TOTAL NUMBER OF ILLICIT CIGARETTES (2006)

Map 14. Source: Transcrime elaboration (details in the Annex)



SHARE OF ILLICIT CIGARETTES

COMING FROM BELARUS, RUSSIA, UKRAINE AND OTHER COUNTRIES ON THE TOTAL NUMBER OF ILLICIT CIGARETTES (2013)

Map 15. Source: Transcrime elaboration (details in the Annex)

Serbia and Turkey are key transit points for illicit tobacco products. They are central because of their geographic position and the existence of consolidated illicit routes used by criminals to smuggle diverse goods.

Illicit cigarettes transiting through Serbia are mainly destined to Romania, Germany, Austria, Croatia, and Bulgaria, with Moravita (Romania), Oltomantzi (Bulgaria) and Bajakovo (Croatia) serving as the principal entry gates.

Illegal tobacco products transiting through Turkey are primarily destined to Bulgaria, Germany, Romania and Greece (Map 16).

All these countries are the core of the ITTP problem, and they should therefore be included in its solution. Deciding what to do and how to do it is the challenge that European policymakers must make their priority. None of the measures against the ITTP will have effect without the cooperation of these countries. Several other measures may improve the action against the inflows of illicit cigarettes from these countries: extending the forthcoming EU tracking and tracing system to non-EU manufacturers, increasing political pressure on governments and manufacturers, and establishing legally binding agreements with manufacturers operating in those countries.

FLOWS OF ILLICIT CIGARETTES

ENTERING THE EU BORDERS FROM SERBIA AND TURKEY (2010-2013)

Map 16. Source: Transcrime elaboration (details in the Annex)



CONCLUSIONS

In conclusion, the intention of this study is to send a strong message to all those engaged in the fight against the ITTP at all levels. A good blend of awareness, action, and flexibility is required for this purpose. Consequently, better knowledge and understanding of the problems within a

country should be connected with greater responsibility by regulators and law enforcement agencies in acting jointly against the ITTP. They must be able constantly to monitor what works, what does not work, and what is promising for adapting rules and patterns of action.

ENDNOTES

1. The percentage change in the prevalence of illicit cigarettes for Bulgaria is calculated for the period 2007-2013.

2. Counterfeit cigarettes are cigarettes illegally manufactured and sold by a party other than the original trademark owner. Counterfeits can be sold in the source country or smuggled into another country, both without paying taxes.

3. Counterfeit cigarettes are cigarettes illegally manufactured and sold by a party other than the original trademark owner. Counterfeits can be sold in the source country or smuggled into another country, both without paying taxes.

4. Other illicit cigarettes enter the illicit market through different illicit forms of the ITTP, including:

- Smuggling (or contraband): the unlawful movement or transportation of tobacco products from one tax jurisdiction to another without the payment of applicable taxes or in breach of laws prohibiting their import or export.
- Bootlegging: the legal purchase of tobacco products in a low-tax country and the illegal retail in a high-tax country. Bootlegging concerns individuals or small groups that smuggle smaller quantities of cigarettes, taking advantage of tax differentials, with the aim of making extra income.
- Illegal manufacturing: cigarettes manufactured for consumption but undeclared to the tax authorities. These cigarettes are sold without tax and may be manufactured in legal or illegal factories.

5. The examination of the flows is based on systematic analysis of open sources on police operations for the period 2010-2013. This timeframe is due to the limited availability of open sources before 2010.

The starting point of a flow is the country from which the movement of illicit tobacco products originates. It is not necessarily the producer of the tobacco products. The ending point of a flow is the country towards which the illicit tobacco products are moved. The ending point is not necessarily the final destination market. The transit point of a flow is the country through which the illicit tobacco products are moved, before reaching the ending point.

6. In this study, law enforcement agencies are the international, European, and national police and customs agencies that coordinate, support, and conduct anti-ITTP actions.

7. Another relevant activity carried by the law enforcement agencies is the confiscation of assets. It would also be interesting to analyse the results of this activity, but open sources do not provide information and data on confiscated assets.

8. Some data were missing. Details are in the Annex.

9. Eastern Europe comprises Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Northern Europe comprises Denmark, Finland, Ireland and Sweden. Southern Europe comprises Croatia, Cyprus, Greece, Italy, Malta, Portugal and Spain. Western Europe comprises Austria, Belgium, France, Germany, Luxembourg and the Netherlands.

10. Key inputs are components essential for the manufacture of cigarettes, such as cigarette paper and acetate tow, the main ingredient of filters.

11. NUTS refers to the Nomenclature of Units for Territorial Statistics.

12. Crime script analysis is an analytical method to study crime-commission processes in detail. It makes it possible to identify the stages of the crime-commission, all the decisions and actions taken, and the available resources.